

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

REPORT OF MARKET CONDUCT EXAMINATION

OF

VIKING INSURANCE COMPANY OF WISCONSIN

as of June 30, 1996

Seattle Washington

June 25, 1997

Honorable Deborah Senn
Insurance Commissioner
Olympia, Washington 98504

Commissioner Senn:

Pursuant to your instructions and in compliance with the statutes of the State of Washington, a market conduct examination has been made of the procedures, underwriting, and claim files of

VIKING INSURANCE COMPANY OF WISCONSIN

8501 Excelsior Drive

P.O. Box 5365

Madison, Wisconsin 53705-0365

and this report of examination is respectfully submitted.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by James Rigney and Shirley Merrill, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

SCOPE OF EXAMINATION

This is the second market conduct examination of the Viking Insurance Company of Wisconsin for Washington State. A previous market conduct examination was completed in 1989.

This examination included a review of policies written and claims closed between January 1, 1996 through June 30, 1996. The examination focused on the following areas:

- *Agencies
- *Advertising
- *Rate and Form Filings
- *Consumer Complaints
- *Personal Lines Claim Settlement Practices
- *Cancellations and Declinations
- *Renewal and Non-Renewal Procedures
- *Personal Lines Underwriting

The examination was performed at the company's office in Salem, Oregon. This office has the responsibility for claims settlements for Washington State insureds. See the sections entitled "Claim Settlement Practices" and "Underwriting and Rating Practices" for more detail. It should be noted, the company writes only non-standard personal automobile coverages.

HISTORY AND MANAGEMENT

The company was incorporated on August 10, 1971 under the laws of Wisconsin. It was licensed and began business on September 15, 1971. Business of the company was conducted under the name Viking Insurance Company until August 29, 1973 when the words "of Wisconsin" were added to the title.

All of the outstanding stock of the company is owned by Viking Insurance Holdings, Inc., a wholly owned subsidiary of Guaranty National Corporation, which purchased the Viking Group from Talegen Holdings, Inc. on July 18, 1995.

Listed below are the officers of the company as of June 30, 1996:

James R. Pouliot.....	Chairman/President
Gregory S. Goodrich.....	Sr. Vice President/Treasurer
Robert D. Wilkes.....	Sr. Vice President/Secretary
Albert F. Luther.....	Vice President/General Counsel
Gregory J. Madson.....	Vice President
Michael L. Pautler.....	Vice President/Assistant Treasurer
Charles B. Ruzicka.....	Vice President/Assistant Secretary
Raymond J. Schuyler.....	Vice President
Gregory R. Spadinger.....	Vice President
Kevin W. Sullivan.....	Assistant Vice President
Robert Claiborne.....	Assistant Vice President
Beverly A. Silk.....	Assistant Secretary
Shelly Hengsteler.....	Assistant Treasurer

AGENCIES

The company has reduced their agency force since the prior examination. They now have approximately 120 agents appointed in the state of Washington. They are all independent agents and represent several other companies. Each agent has a contract with the company and is paid on a commission basis once a month for business written. As a writer of non-standard personal lines auto only, the company has very tolerable standards with respect to volume or loss ratio requirements with their agents.

A review of fifteen agency files, both currently appointed and cancelled during the time frame of this examination, was performed. The files revealed current agents were licensed with Washington State and the appropriate fees had been paid. The cancelled agency files indicated the state had been properly notified and agents given 120 days notice as required by RCW 48.18.591(2).

ADVERTISING

The company does very little advertising. They have a few brochures and policy stuffers to describe their products and inform their policy holders and agents of any changes. They provide posters which agents can display in their offices. They will also do an occasional ad in insurance magazines.

A review of their advertising material indicated no violations of insurance codes. Noted in the prior examination, not all material included the company name and location of their home office, as required by RCW 48.30.050. This has now been corrected.

RATE AND FORM FILINGS

The company is a member of the following rating/advisory organizations:

Insurance Services Office (ISO)

Insurance Industry Committee on Motor Vehicle Administration (IICMVA)

Insurance Institute for Highway Safety (IIHS)

National Association of Independent Insurers (NAII)

Utilizing data and information from these organizations, as well as its own loss experience, the company has promulgated their manuals of rates and rules as well as their automobile policy. They have also devised policy endorsements to tailor the policy to fit the needs of their insureds. All rates and forms are developed by the company's Product Development Department in their home office in Madison, Wisconsin.

Rate and rule manuals were reviewed, as well as the policy and endorsement forms. The examiners requested verification of approved filings. All material appeared to have been filed and either approved or deemed approved prior to use.

The examiners had one area of concern which was discussed with the company. Form CE-1(7/85) Additional Insured Endorsement was deemed approved, so the company may use the form. However, the last paragraph doesn't completely comply with RCW 48.18.290 (1)(b), which requires an insurer cancelling a policy to give "like notice" to any mortgagee, pledgee, or other person shown to have an interest. This requirement is also explained in Commissioner's Bulletin 86-3.

The last paragraph of the form states that if they cancel the policy, they will mail notice at least ten days before the cancellation date. This is appropriate when cancelling for non-payment. However, other reasons for cancelling require up to twenty days notice, as explained in RCW 48.18.291(1).

The examiners advised the company that the statute will govern and they must comply with that regardless of what the form states. The company agreed to comply with the insurance statute and to advise all employees who process cancellations of this requirement.

SUBSEQUENT EVENT:

It was noted, in reviewing this form with the Rate and Contracts division of the Insurance Commissioner's office following the examination, that the company did file a replacement form. Form, CE-1 (4/96), was approved effective 9-1-96 and does not contain the 10 day notice language.

COMPLAINT HANDLING PROCEDURES

Every complaint received by the company is noted in a log book showing the date received by the company and the date resolved. Each office has a designated complaint coordinator who determines the nature of the complaint, logs it in the register and forwards it to the appropriate department for handling. The coordinator also follows up on the response and completion of the paperwork. The company attempts to resolve all complaints within seven working days. The examiners reviewed the complaint handling procedures of the company and found them to be satisfactory.

CLAIM SETTLEMENT PRACTICES

The Salem, Oregon office is responsible for claim settlements for Washington insureds. The company does utilize independent adjusters and an independent appraisal firm to assist in evaluation of the vehicles determined to be total losses. If a lawsuit is filed, the Salem, Oregon office then takes the responsibility for the claim.

First Party Automobile Total Losses

The examiners reviewed 53 first party total losses which were settled during the examination period. The files were examined to determine how the actual cash value (ACV) was established, timely contact with the insured, computation of all taxes and license fees and file documentation.

In most cases initial contact with the insured was made in a timely manner. After the claim was received by the company, it was assigned to an independent appraiser to establish the amount of damage. If the vehicle was determined to be a total loss, the company sent information regarding the car to an independent firm, Auto Data Services, to establish the fair market value of the vehicle. Auto Data Services, uses dealers and private parties in determining the ACV by researching prices of cars sold and for sale in the insured's local area for the same type of car.

It was noted on five of the files examined that registration and license tabs fees had been incorrectly computed. This was pointed out to management and the computations were re-figured and checks for the additional amounts due were sent to the insureds.

All Claims Other Than First Party Automobile Total Losses

Claims for bodily injury, property damage, medical pay, personal injury protection (PIP), comprehensive and collision coverage were reviewed. The review included an evaluation

of claim handling as to timely contact and proper payment, denial procedures, and file documentation. In addition, we also checked claims for improper handling which would include any evidence of unfairly delaying investigations, failure to disclose all pertinent benefits and coverages to first parties, or using one portion of a claim to influence settlements under other portions of the claim.

Contact was made within the 10 days required by Washington State statutes, and usually within one to two days after receipt of notice of loss.

Most bills appeared to be paid promptly after being received by the company. There was no evidence of retroactive denial of claims on the basis of medical necessity. No indiscriminate use of independent medical examinations (IME) was noted. Contact was made with third party claimants on a timely basis. The files examined indicated the insured and/or claimant had been advised of the coverages available. No indiscriminate use of comparative negligence was noted in the files reviewed. It is the examiners opinion that the claim settlement practices of the company are acceptable.

CANCELLATIONS, NON-RENEWALS AND DECLINATIONS

The company's cancellation, non-renewal and declination practices were reviewed to ascertain if they were in compliance with Washington statutes. One hundred files were reviewed. They were examined to verify that the proper amount of time was given on the notice and to see if the actual reason was given for their action.

The company does not keep separate records of declined applications. With all applications, a policy is issued, then underwritten. If there is a reason the company does not wish to remain on the risk, they issue a cancellation within the first sixty days as permitted by RCW 48.18.291(1).

In the majority of the files reviewed, the company was in compliance with Washington codes. However there were three files which did not comply with WAC 284-30-570. This statute requires that the reason for the cancellation or non-renewal must be clear enough that the insured does not need to ask for help in understanding the reason for the company's action. Examples such as : "risk exceeds underwriting guidelines" , "vehicle is ineligible for physical damage coverage due to it's symbol" or "car is altered" are unacceptable. The insured must be advised what it is in the above examples that is causing the cancellation or non-renewal.

Two exceptions were noted in which the company did not give the required amount of time on the cancellation notices. Both of these files only affected the lien-holder and not

the insured. These files were referred to management and discussed. The company was reminded of the requirements to give lien-holders "like notice" in the same time frame as the insured. Also see section titled "Rate and Form Filings" regarding form CE-1 (7/85) Additional Insured Endorsement.

Although there were a few errors as noted above, this was an improvement from the prior examination. With the exceptions noted above, all other cancellations and non-renewals were in compliance.

It should also be mentioned that during the prior examination, it was noted that the company was paying return premiums on the agent's account and not to the insureds. This has been corrected, and all return premiums are now in the form of a check made payable to the named insured and sent to the agent to deliver.

UNDERWRITING AND RATING PRACTICES

The company specializes in writing risks which would normally be declined by the preferred markets because of losses, traffic violations, or no previous insurance. The method the company uses for rating the policies is based on a modified "Safe Driver" plan, which is standard in the insurance industry. Points are assigned for at-fault accidents and traffic violations, as well as inexperienced operators.

All new business is submitted to, and is the responsibility of the regional processing center in Freeport, Illinois. This office does the initial underwriting and issues the policy based on the information submitted on the application. Underwriting and rating records were examined through the use of on-line computer and microfilm data.

One area of concern the examiners noticed was the application of an "Anti-Fraud Discount". The company offers a 10% discount to insureds who provide the company with a copy of the "current and valid registration certificate" on the auto being insured. In reviewing the policies and on-line notes, it did not appear this was being applied consistently to all eligible insureds. This was discussed with management, who informed the examiners they consider it the agent's responsibility to provide the certificate with each application. On some policies, it was noted the discount would be applied with no note indicating a copy of the registration was received. On some policies, there would be a note indicating a copy of the registration was received and the discount applied. Other policy notes indicated the company had contacted the agent and requested a copy of a registration. On other policies, there was nothing to indicate the agent was contacted. Also retaining a copy of the certificate appeared to be inconsistent when one was received.

It is the examiners opinion the company should issue a notice to all their agents indicating the need to get a copy of the certificate of registration, so that the discount would be consistently applied to all eligible risks.

One other area of concern the examiners noted, was the method of applying points from the application versus the motor vehicle report (MVR). The company would apply a default date using the effective date of the policy if the agent/insured did not indicate an actual date. If an MVR showed an earlier date, the company did not update their computer records. This results in point charges extended beyond the three years allowed and in cases of renewals, the insureds are charged more than the appropriate premium. This was noted on five files. Due to the expenses involved, and the fact the retention of policies is very low, the company only orders MVRs on approximately twenty percent of their business.

With the exceptions noted above, the majority of the files reviewed appeared to be underwritten, classified and rated following the companies filed plans.

RECOMMENDATIONS

1. The examiners recommend that the company issue a notice to all of their agents regarding the importance of providing a copy of the vehicle certificate of registration with all new applications, in an effort to have the "Anti-Fraud Discount" applied to all eligible insureds.
 2. The examiners also recommend that the company implement a procedure so that all dates from MVRs (motor vehicle reports) will be updated on their computer system.
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ACKNOWLEDGMENT

The examiners wish to express their appreciation for the courtesy and cooperation extended to them by the management and personnel of the Viking Insurance Company of Wisconsin during the course of this examination.